

STATE OF IDAHO TAX UPDATE

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SEPTEMBER 2002

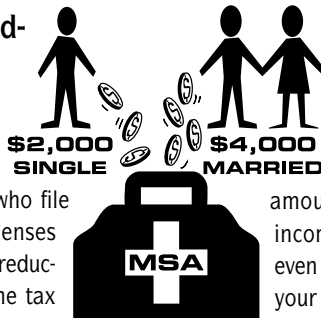


This issue of Tax Update deals with Idaho's income tax deduction for Medical Savings Accounts. If you have questions about the material here, or if you need more information, contact any Idaho State Tax Commission office listed on the back of this newsletter.

MEDICAL SAVINGS ACCOUNT

Q. What is Idaho's Medical Savings Account?

A. An Idaho Medical Savings Account (MSA) allows you to save up to \$2,000 each year (\$4,000 for married couples who file jointly) for future medical expenses and nursing home costs while reducing the amount of Idaho income tax you owe.



married filing jointly). You can also deduct the interest the account earns. When you file your Idaho income tax return, you can deduct these amounts from your adjusted gross income. The deduction is available even if you itemize your deductions on your income tax return and the expenses you paid with these funds appear as a deduction on your Schedule A.

The deductible contributions to your MSA can be made any time throughout the calendar year. And, you can wait until a medical expense becomes due before depositing money into your account for the payment. But you must be sure that the money is in the MSA before you pay the expense. For example, if you owe a doctor \$100 from a June visit, you can deposit the \$100 into your MSA in July just before you pay the bill. You can also pay the \$100 from other funds and reimburse yourself from your MSA, but *only* if sufficient funds were in the MSA when you paid the bill.

Q. How do I set up an Idaho MSA?

A. See if your Idaho financial institution offers Idaho Medical Savings Accounts. If it does, simply complete an account application and make your initial deposit. You must keep your account statements for your tax records.

The only requirement placed on the financial institution is that it include the words "Medical Savings Account" or "MSA" in the title of the account. Its tax reporting requirements are the same on this type of account as on other interest bearing accounts.

Q. What is deductible on my Idaho income tax return?

A. The **contributions** you make to the account are deductible (up to \$2,000 single, or \$4,000

Q and A

rate set by the IRS.

You can also use the funds to pay the qualified medical expenses of your child or grandchild who is not self-supporting, married or a member of the armed forces, and is:

- (1) under 19 years of age, or
- (2) a student enrolled full-time in an accredited college or university, or
- (3) mentally or physically unable to be self-sufficient.

Q. What if I use the funds for other things?

A. You must pay Idaho income tax on any amount you withdraw for something other than eligible medical expenses—and, if you are under 59 years of age, you will owe a 10% penalty. If you withdraw money from your MSA by mistake, you must redeposit it within 30 days to avoid these tax consequences.

If you deposit money into your MSA by mistake, you have 30 days to withdraw it without tax consequences.

You can move your MSA from one financial institution to another without owing tax, as long as the accountholder remains the same and the deposit to the new institution is made within 60 days of the withdrawal.

Q. What if my insurance reimburses me for an expense I paid with my MSA?

A. You must redeposit the amount you received from the insurance company within 60 days. If you don't, you must include the amount in tax-

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MSA Q&A

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able income and you may be subject to the 10% penalty because the withdrawal was not used for a qualified medical expense. The amount redeposited into the MSA is not considered a contribution to the MSA.

Q. What about health insurance deducted from my paycheck?

A. If the amount withheld from your paycheck is included in taxable income on your W-2 form, you may withdraw funds from your MSA to reimburse yourself. But, if the amount withheld is tax deferred, it does not qualify.

Q. What about Idaho's new Health and Long-term Care Insurance Premiums deductions for those who don't qualify to itemize these deductions?

A. Idaho has special deductions for health insurance premiums and 50% of long-term care insurance premiums you pay if you don't qualify to itemize these expenses on Schedule A. If you pay these premiums with your Idaho MSA funds, you cannot claim these special Idaho deductions.

Q. What happens to the account if I die?

A. If your spouse is your beneficiary, the account will continue to qualify as an MSA for

your spouse's use. Otherwise, the account no longer qualifies and the beneficiary, including an estate, will have to include the account balance in taxable income (less any amount paid for your medical expenses within one year of your death).

CLARIFICATION

The March issue of *Tax Update* included an article titled "Taking the Mystery Out of Sales Tax Returns." The article described the differences between returns filed by businesses with seller's permits and those with use tax accounts. To clarify, retailers who buy goods exempt from sales tax and then use the goods themselves rather than reselling them must report these purchases on line 4 of their sales tax return.

Where To Get Information

If you would like to know more about Idaho state taxes, call the Idaho State Tax Commission toll free at 1-800-972-7660 or contact any of the offices listed below:

Boise

800 Park Blvd., Plaza IV
(208) 334-7660

Pocatello

611 Wilson St., Suite 5
(208) 236-6244

Twin Falls

1038 Blue Lakes Blvd. N, Suite C
(208) 736-3040

Coeur d'Alene

1910 Northwest Blvd.,
Suite 100
(208) 769-1500

Lewiston

1118 F Street
(208) 799-3491

Idaho Falls

150 Shoup Ave., Suite 16
(208) 525-7116



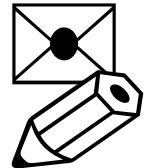
HEARING IMPAIRED CALLERS:

Use the Idaho Relay Service (1-800-377-3529) to reach any Tax Commission office listed above.

Costs associated with this publication are available from the Idaho State Tax Commission in accordance with Section 60-202, Idaho Code.

TAX UPDATE is published quarterly. Unless otherwise noted, information in TAX UPDATE applies only to Idaho taxes. This newsletter is designed to provide general information only, and is not intended to offer comprehensive explanations of Idaho tax laws and rules. Specific questions should be addressed to the nearest State Tax Commission office. Comments about TAX UPDATE and suggestions for future issues should be sent to:

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State Tax Commission
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Boise, ID 83722



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This issue of Tax Update deals with:
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IDAHO STATE TAX COMMISSION

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